2001 Country Reports on Economic Policy and Trade Practices
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VENEZUELA

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP 2/	103.3	120.5	125.0
Real GDP Growth (pct) 3/	-6.1	3.2	3.0
GDP by Sector:			
Agriculture	-2.1	2.2	2.2
Manufacturing	-9.2	3.6	3.2
Services	-4.0	3.4	3.0
Government	1.2	3.1	2.9
Per Capita GDP (US$)	4,357	4,985	5,080
Labor Force (000s)	10,225	10,327	10,430
Unemployment Rate (pct)	14.5	13.2	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	20.0	27.8	15.0
Consumer Price Inflation	20.0	13.4	13.0
Exchange Rate (BS/US$ annual average)			
Official	605.70	679.93	725.00
Parallel	605.70	679.93	725.00
Balance of Payments and Trade:			
Total Exports FOB 4/	20.8	34.0	28.8
Exports to United States 5/	11.3	18.6	15.8
Total Imports CIF 4/	13.2	16.1	16.8
Imports from United States 5/	5.4	5.6	5.8
Trade Balance 4/	7.6	17.9	12.0
Balance with United States 5/	5.9	13.0	10.0
External Public Debt	21.1	20.2	19.8
Fiscal Surplus (Deficit)/GDP (pct)	-2.6	-2.1	-3.5
Current Account Surplus (Deficit)/GDP (pct)	3.6	11.1	6.0
Debt Service Payments/GDP (pct)	6.1	5.9	5.4
Gold and Foreign Exchange Reserves	15.4	20.5	17.4
Aid from United States 6/	N/A	N/A	0.047
Aid from All Other Sources	N/A	N/A	N/A

1/ 2001 figures are all estimates based on extrapolated data available as of October.

2/ GDP at market value.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade.
5/ Source: U.S. Department of Commerce.
6/ $486,000 in Military IMET funding, and $4,208,683 in Narcotics Affairs assistance.

1. General Policy Framework

The Government of Venezuela (GOV) officially maintains a policy that promotes foreign investment. Following a serious recession in 1999, the climate for foreign investment improved in 2000 as the economy recovered with a growth rate of 3.2 percent under the influence of a strong recovery in global oil prices. Many investors, however, have been cautious in their plans due to long-term economic and political uncertainty. President Chavez has often expressed a desire for a “multipolar” political and economic world, and has expressed serious reservations over the proposed Free Trade of the Americas Agreement (FTAA). Despite the uncertainty, several sectors continue to attract significant foreign investment, particularly telecommunications, electrical power generation and distribution, and oil and gas.

Foreign investors have expressed its concern over a comprehensive new hydrocarbon law, which may make foreign investment in this critical sector more difficult. The law, enacted in November 2001, will increase royalty payments owed by investors and will require that the state control at least 51 percent of each joint venture.

Real GDP increased by 3.2 percent in 2000, and is expected to continue its growth in 2001 with most public and private estimates of GDP growth in the two to three percent range. Inflation for 2000 was 13.4 percent and is expected to be 12-14 percent in 2001. Much of the stabilization in the inflation rate is due to the continuation of a foreign exchange rate policy that maintains a gradual depreciation of the Bolivar at an annual rate of approximately seven percent.

President Chavez has consistently called for increases in foreign investment, and has opened several economic sectors previously closed to foreign participation, notably the telecommunications and natural gas sectors. A Bilateral Investment Treaty between the two countries is under discussion following a two-year hiatus. If enacted, this treaty would provide greater protection to foreign investors in Venezuela.

Over the past year, Venezuela’s money supply (M2) expanded gradually in keeping with moderate GDP growth of approximately 3.4 percent over the first semester. In early September, however, the Central Bank of Venezuela significantly reduced monetary liquidity to counter pressure on the local currency. Through a combination of additional debt issues and increases in the reserve requirements of commercial banks, the Central Bank reduced M2 by more than two percent in four weeks. It is anticipated that money supply will be tightly controlled to dampen inflationary pressures and support the Bolivar. The negative side of this policy is a marked increase in lending interest rates and consequently lower economic growth for the rest of 2001. The Director of the Central Bank has stated clearly that the Bank’s primary responsibility is to control inflation. Therefore, one can expect continued aggressive use of monetary policy as a macroeconomic tool.

Overall, uncertainty emanating from a polarized domestic political situation and President Chavez's criticism of globalization have combined to dampen a previously encouraging climate for U.S. exports. While much of President Chavez's legislation is positive, his frequent verbal attacks on U.S. "economic hegemony" and the worrisome hydrocarbon law may worsen the domestic economic situation and cause some hesitation in foreign companies looking to invest in Venezuela.

2. Exchange Rate Policy

The Central Bank of Venezuela (BCV) has maintained the bolivar within a band of 7.5 percent centered on a gradually depreciating target exchange rate compared with the U.S. dollar. The target rate had been allowed to depreciate at a rate of 0.5 percent per month. Over the past two years, depreciation of the bolivar has not kept up with the rate of inflation, but convergence is occurring as the core inflation rate gradually dissipates. The appreciation of the Bolivar has a strongly negative impact on non-oil exports, but the government is expected to keep the band system for the near future. Central bank foreign reserves are sizable, and are more than adequate to support the gradually devaluing currency.

3. Structural policies

Pricing Policies: Price controls on basic goods and services do not exist. Only gasoline, and those pharmaceuticals with fewer than four competitive products remain subject to price controls. Foreign investors in capital markets and foreign direct investment projects are guaranteed the right to repatriate dividends and capital under the Constitution. However, the Law Governing the Foreign Exchange System (Extraordinary Official Gazette No. 4,897 dated May 17, 1995) permits the executive branch to intervene in the foreign exchange market "when national interests so dictate." The government exercised this option during the 1994-95 financial crisis and placed restrictions on foreign exchange conversion or repatriation for investors. These restrictions were eliminated with the end of foreign exchange controls on April 22, 1996.

Tax Policies: The U.S.-Venezuelan Bilateral Tax Treaty, which went into effect in November 1999, eliminates double tax withholding and standardizes information sharing between the tax authorities of the two countries.

The maximum income tax rate in Venezuela for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum and mining sectors. Since 1993, the government has imposed a one-percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation.

The Chavez Government is currently working on a new hydrocarbon law, expected to be one of the last pieces of legislation to be passed under the current Enabling Law. Industry representatives have expressed their concerns on several issues including a minimum of 51 percent PDVSA participation in projects, an increase of royalty to 30 percent, and the grandfathering of previously awarded contracts.

Regulatory Policies: There are no official discriminatory regulatory policies which affect specific U.S. products or services. As detailed in Section 5 below, Venezuela has used import certificate requirements for certain agricultural products to unofficially restrict importation of these products.

4. Debt Management Policies

Venezuela's public sector's external debt was \$20.2 billion at the end of 2000 and is expected to fall slightly to \$19.8 billion by the end of 2001. External debt will be equal to approximately 16 percent of GDP by the end of 2001. Venezuela's external debt service totaled 5.9 percent of GDP in 2000. This figure is expected to drop to 5.4 percent this year. The government's proposed budget indicates a decision to expand social and infrastructure spending in 2001-02 in an effort to meet numerous pressing social demands in education, health and social welfare. To pay for the high government expenditures in 2002, the government is planning to borrow \$10.9 billion (\$6.9 billion after amortization) and stop payments to its Macroeconomic Investment and Stabilization Fund, which accrues excess oil revenues.

The Government of Venezuela will finish 2001 with a fiscal deficit close to four percent of GDP due to falling oil revenues and an expansive spending program designed to revitalize the economy. Adherence to OPEC-mandated cuts in oil production and a rapidly falling average oil price in the face of reduced global energy demand were the principal components in this deficit. The announced federal budget for 2002 will produce an even greater fiscal deficit, on the order of five percent of GDP, unless the oil sector turns around or substantial reductions in spending occur. Even with Venezuelan oil in the USD \$18.50 range, the budget planning office projects financing needs of approximately USD \$10 billion. The sources for this amount will be international capital markets, domestic debt, increased dividends from PDVSA, or the Macroeconomic Stabilization Fund. Excessive reliance on any of these options will create long-term fiscal pressures. Expenditures will be difficult to reduce due to political considerations.

5. Significant Barriers to U.S. Exports

Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990, and the World Trade Organization in 1995. Venezuela implemented the Andean Community's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET has a five-tier tariff structure of zero, 5, 10, 15, and 20 percent. Under the Andean Community's Common Automotive Policy (CAP), assembled passenger vehicles constitute an exception to the 20 percent maximum tariff and are subject to 35 percent import duties.

Venezuela implemented the Andean Community's price band system in 1995 for certain agricultural products, including feed grains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. Yellow corn was added to the price band system in 1996, and processed poultry was added in 2001. Ad valorem rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the compensatory tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the compensatory tariff is eliminated. Floor and ceiling prices are set once a year based on average CIF prices during the past five years. Venezuela publishes these prices each April.

Import Licenses: Venezuela requires that importers obtain sanitary and phytosanitary (SPS) certificates from the Ministries of Health and Agriculture for most pharmaceutical and agricultural imports. Specifically, licenses are required for milk, cheese, oilseeds, and yellow corn. The government has been known to use this requirement to restrict agricultural and food imports.

Services Barriers: Professionals working in disciplines covered by national licensing legislation (e.g. law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must revalidate their qualifications at a Venezuelan university and pass the Associated Professional Exam. Exceptions may be granted to foreign service companies and their professional staff for limited periods of time and for specific projects or contracts. Foreign journalists who intend to work in the domestic Spanish language media must meet similar revalidation requirements.

Standards, Testing, Labeling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have had trouble in complying with the documentary requirements for the issuance of COVENIN certificates

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures with state owned PDVSA. The new hydrocarbon law will change the parameters for these contracts, and is expected to make hydrocarbon investment more costly and difficult for U.S. corporations.

The exploitation of iron ore and hydropower generation in the Caroni river basin remain reserved for the state. However, one area that is rapidly changing is telecommunications. Under the new Telecommunications Law, the fixed-line telephone monopoly was deregulated in mid-2001. Extensive participation by U.S. firms in both the supply and operations sectors of the industry is starting to take shape.

Venezuelan law incorporates performance requirements and quotas for certain industries. Under the Andean Community's Common Automotive Policy (CAP), all car assemblers in Venezuela must incorporate a minimum amount of regional content in their finished vehicles. In the media sector, the government enforces a "one for one" policy for performers giving concerts in Venezuela. This requires foreign artists featured in these events to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films. At least half of the television programming must be dedicated to national programs. Finally, at least half of the FM radio broadcasting from 7 a.m. to 10 p.m. is dedicated to Venezuelan music. Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in companies engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen are Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force and restricts remuneration for foreign workers to 20 percent of the payroll. Article 28 allows temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available. Article 19 requires that all orders and instructions to workers are given in Spanish.

Government Procurement Practices: Venezuela's Government Procurement Law stipulates that there will be no discrimination in the award of government contracts. However, the law leaves the Executive Branch significant discretionary power in granting contracts. For example, the President may promote domestic production or offset unfavorable conditions for domestic industry and may set criteria for preferences to Venezuelan nationals.

Customs Procedures: In response to widespread complaints regarding the extent of corruption in Venezuela’s Customs Service, President Chavez has embarked on a public campaign to modernize and restore confidence in the service. Although the government passed a customs law in 1998 that made private customs agents criminally responsible for illegal or undervalued shipments that enter the country, the problem remains significant and its resolution will require a concerted effort by the government.

6. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a customs rebate paid on imported inputs. Exporters can also get a rebate of the 14.5 percent wholesale tax levied on imported inputs. Both foreign and domestic companies are eligible for these rebates. However, the government has traditionally delayed making these duty drawback payments. Exporters of selected agricultural products, including coffee, cocoa, some fruits and certain seafood products, receive a tax credit equal to 10 percent of the export's FOB value.

7. Protection of U.S. Intellectual Property

Venezuela has recently made progress in the protection of Intellectual Property Rights (IPR). However, comprehensive legislation remains to be enacted and enforcement of IPR laws remains lax. The Venezuelan Industrial Property Office (SAPI) was successful in improving its service to the business community, but had less success in pushing for increased resources for the anti-piracy brigade (COMANPI) and for the special IPR prosecutor's office. The Venezuelan government is also working to get a new Industrial Property Law approved by the National Assembly (Congress), as well as promoting the ratification of the WIPO treaties. Unfortunately, pirated optical media remains readily available. Venezuela remained on USTR's Special 301 "Watch List" following the annual review in April 2001.

Venezuela is an active member of the World Intellectual Property Organization (WIPO). It is also a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Universal Copyright Convention, and the Paris Convention for the Protection of Industrial Property. Through Andean Community Decision 486, Venezuela has ratified the provisions of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Patents and Trademarks: Venezuela provides the legal framework for patent and trademark protection by the newly enacted Andean Community Decision 486, which substitutes for Decision 344, and the 1955 National Industrial Property Law. Andean Community Decision 486 takes major steps towards bringing Venezuela into WTO TRIPS compliance, but without corresponding local laws Venezuela is not completely TRIPS compliant. Andean Community Decision 345 covers patent protection for plant varieties.

While the government introduced legislation in early 1996 to update the 1955 Industrial Property Law to bring Venezuela into compliance with TRIPS, the draft legislation was sidelined by President Chavez's constitutional reform process. However, the National Assembly is debating a new Industrial Property Law, which should address many of the outstanding TRIPS issues. A new customs law, which includes provisions for TRIPS-consistent border controls to impede the importation of pirated goods, became law in November 1998, and a revision to this law is pending.

A significant patent issue continues to be the patentability of "second uses." While Venezuela continues to stand behind its decision to issue second-use patents, Andean community Decision 486, like the previous Decision 344, is still ambiguous on second-use patents. It left intact the murky language from the old Decision 344 which has been interpreted by the Andean Community Secretary General as not allowing second use patents. The Andean Community has brought actions (still pending) in the Andean Community Supreme Court to disallow the second use patents issued to Pfizer in Venezuela, Peru, and Ecuador. Because of the Secretary General's interpretation on Decision 344, it is widely believed that the Andean Community Supreme Court will eventually disallow a second use patents in the Andean Community. Thus, while Venezuela has been one of the Andean Community countries advocating in support of second use patents, their position may be overturned by the decision of the Andean Community Supreme Court.

Copyrights: The Venezuelan copyright and trademark enforcement branch of the police (COMANPI) continues to be understaffed with only nine permanent investigators to cover the entire country. The lack of personnel, coupled with a very limited budget and inadequate storage facilities for seized goods, has limited COMANPI's effectiveness.

The legal framework for the protection of copyrights is provided by Andean Pact Decision 351 and Venezuela's 1993 Copyright Law. The 1993 Copyright Law is modern and comprehensive and extends copyright protection to all creative works, including computer software. A National Copyright Office was established in October 1995 and given responsibility for registering copyrights, as well as for controlling, overseeing and ensuring compliance with the rights of authors and other copyright holders. The government formed COMANPI in July 1996 to act as an enforcement arm of the National Copyright Office. This police unit has the power to seize goods, make arrests and close establishments for violations of the law. However, it can only act based on a complaint by a copyright holder; it cannot carry out an arrest or seizure on its own initiative. COMANPI works closely with private sector representatives of the U.S. copyright industry, who provide the unit with intelligence information, financial backing and training.

8. Worker Rights

a. The Right of Association: Both the 1999 Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private and public sector employees, except members of the armed forces, the right to form and join unions. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller confederations, and a number of independent unions all operate freely. It is estimated that 30 percent of the formal labor force belongs to unions.

b. The Right to Organize and Bargain Collectively: The labor code protects and encourages collective bargaining, which is actively practiced in the Venezuelan economy, even in critical economic sectors such as oil production. Employers must negotiate a collective contract with the union that represents the majority of their workers. The labor code states that wages may be raised by administrative decree, if the National Assembly approves the decree. The law prohibits employers from interfering with the formation of unions or their activities. Employers may not stipulate as a condition of employment that new workers refrain from union activity.

c. Prohibition of Forced or Compulsory Labor: The labor code states that no one may obligate others to work against their will.

d. Minimum Age for Employment of Children: The labor code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. However, children between the ages of 14 and 16 only require the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health," in jobs that could damage their intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than 6 hours a day, or 30 hours a week. Minors under the age of 18 years may work only between 6 a.m. and 7 p.m.

e. Acceptable Conditions of Work: Effective May 2001, the monthly minimum wage for urban workers is $213 (BS 158,400 and $192 (BS 142,560) for rural workers. The law excludes only domestic workers from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The new Constitution reduces the standard workweek to a maximum of 40 hours and requires "two complete days of rest each week." The code states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

f. Rights in Sectors with U.S. Investment: People who work in sectors that receive high levels of U.S. investment receive the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are usually better than those found in wholly owned domestic enterprises.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		2,803
Total Manufacturing		1,366
Food & Kindred Products	347	
Chemicals & Allied Products	272	
Primary & Fabricated Metals	97	
Industrial Machinery and Equipment	35	
Electric & Electronic Equipment	49	
Transportation Equipment	145	
Other Manufacturing	421	
Wholesale Trade		176
Banking		51
Finance/Insurance/Real Estate		727
Services		811
Other Industries		2,489
TOTAL ALL INDUSTRIES		8,423

Source: U.S. Department of Commerce, Bureau of Economic Analysis.